

# Audit



# Report

OFFICE OF THE INSPECTOR GENERAL

**DEFENSE COMMISSARY AGENCY MANAGEMENT OF  
MANUFACTURER COUPONS**

Report No. 95-236

June 15, 1995

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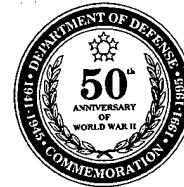
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### **Acronyms**

ACS	Automated Coupon System
CRB	Coupon Redemption Branch
DBOF	Defense Business Operations Fund
DeCA	Defense Commissary Agency
DFAS	Defense Finance and Accounting Service
STANFINS	Standard Finance System



**INSPECTOR GENERAL**  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-2884



June 15, 1995

**MEMORANDUM FOR DIRECTOR, DEFENSE COMMISSARY AGENCY**

**SUBJECT: Audit Report on Defense Commissary Agency Management of  
Manufacturer Coupons (Report No. 95-236)**

We are providing this audit report for review and comment. Management comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires all recommendations to be resolved promptly. Management did not concur with three recommendations. Therefore, we request that management provide additional responses to Recommendations A.3, B.1, and B.3 by August 15, 1995.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Robert J. Ryan, Audit Program Director, at (703) 604-9418 (DSN 664-9418) or Mr. Walter R. Loder, Audit Project Manager, at (703) 604-9413 (DSN 664-9413). The distribution of this report is in Appendix E. The audit team members are listed on the inside back cover.

*David K. Steensma*

David K. Steensma  
Deputy Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

Report No. 95-236  
(Project No. 4LA-0038)

June 15, 1995

### DEFENSE COMMISSARY AGENCY MANAGEMENT OF MANUFACTURER COUPONS

#### EXECUTIVE SUMMARY

**Introduction.** The Defense Commissary Agency (DeCA) accepts manufacturer coupons from customers at commissary stores. DeCA contracts with a coupon clearinghouse to process the coupons and to invoice manufacturers for the face value of the coupons and a handling fee. Annually, DeCA accepts about 324 million manufacturer coupons with an estimated face value of \$215 million.

**Objectives.** The audit objectives were to determine whether DeCA was efficiently and effectively accounting for and processing manufacturer coupons, and whether current regulations and guidance were complied with and needed. We also evaluated the effectiveness of related management controls.

**Audit Results.** DeCA did not effectively or efficiently manage the manufacturer coupon program. As a result, DeCA:

- o could not account for about \$15.2 million in manufacturer coupon shipments from October 1991 through February 1994,

- o did not know the amount of paid or unpaid manufacturer coupon invoices,

- o incorrectly transferred \$65 million in paid coupons and related coupon handling fees to the Air Force from October 1991 through July 1993, and

- o will spend approximately \$2.5 million more than needed to operate the manufacturer coupon program over the next 6 years (Finding A).

The DeCA management control program needs improvement, because material weaknesses related to management controls over accountability or physical security of manufacturer coupons were identified.

DeCA did not reimburse the Commissary Operations Fund for all manufacturer coupon handling fees that it collected from October 1991 through May 1994, which resulted in an incorrect financial accounting for \$16.7 million of funds (Finding B).

DeCA can reduce personnel costs over the 6-year Future Years Defense Program if it emulates private sector grocery industry practices and controls for processing manufacturer coupons. Coupon handling fees that DeCA collected will be used to pay for agency operating costs, as required by public law, rather than being used to cover manufacturer coupon losses. See Appendix C for a summary of potential benefits resulting from the audit.

**Summary of Recommendations.** We recommend that DeCA implement grocery industry procedures and controls for processing manufacturer coupons, and research and properly account for all coupon shipments. We also recommend that DeCA revise and enforce procedures to require monthly transfers to the Commissary Operations Fund of all coupon handling fees collected, and perform research and make accounting adjustments for coupon losses.

**Management Comments.** The Chief of Staff, DeCA, partially agreed to implement industry practices, stating that it would study commercial practices. DeCA also agreed with the recommendations to research missing coupon shipments and unaccounted for handling fees and provided information on actions taken and planned. DeCA nonconcurred with obtaining reimbursement of \$65 million from the Air Force because the residual value of all funds at October 1, 1991, were consolidated into the Defense Business Operations Fund. DeCA also nonconcurred with having coupon losses reimbursed from the Surcharge Collections Fund. A discussion of the management comments is in Part II and the complete text is in Part IV.

**Audit Response.** We accept the DeCA responses except for how DeCA is having coupon losses reimbursed from the Surcharge Collections Fund. We request that DeCA provide additional comments by August 15, 1995.

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## **Part I - Introduction**

## Introduction

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## Background

**Defense Commissary Agency Mission.** The Defense Commissary Agency (DeCA) purchases name brand grocery items and resells them to commissary patrons at prices approximating cost. The goal of the commissary system is to provide grocery, meat, and produce items to its authorized customers at a 25-percent savings from grocery items available in the private sector. As a method of further reducing grocery prices to customers, commissary stores accept manufacturer coupons. DeCA annually processes approximately 324 million manufacturer coupons with an estimated face value of \$215 million. In addition to receiving the face value of the coupons, DeCA receives a handling fee from the manufacturers to process the coupons. The DeCA strategic plan includes an objective to increase manufacturer coupon usage.

**DeCA Funding.** DeCA is funded from three congressionally approved sources.

- o The Commissary Resale Stock Fund account is used primarily to purchase resale stocks for commissary stores and troop issue. Funds are mainly generated from customer sales of resale stocks. The proceeds collected from the face value of manufacturer coupons are also paid to this account.

- o The Commissary Operations Fund account is appropriated by Congress to pay for labor, transportation, and other operating costs. Funds collected for coupon handling fees are paid to this account.

- o The Commissary Surcharge Collections Fund is generated by a 5-percent surcharge that is added to sales at the checkout counter. The funds are used to build or renovate commissary stores and to defray certain store operating costs, such as equipment and shopping bags.

**Description of Manufacturer Coupons.** Manufacturer coupons are printed advertisements that are redeemable when commissary patrons purchase products. The product purchase price is reduced by the face value of the manufacturer coupon. Manufacturer coupons are part of the overall commissary cash flow and are to be controlled in the same manner as cash. DeCA returns manufacturer coupons to manufacturers through a commercial coupon clearinghouse for reimbursement of the face value and for a coupon handling fee.

## Objectives

The audit objectives were to determine whether DeCA was efficiently and effectively accounting for and processing manufacturer coupons, and whether current regulations and guidance were complied with and needed. We also evaluated the effectiveness of related management controls.

## Scope and Methodology

**Audit Scope and Methodology.** We identified the grocery industry procedures and controls for managing and accounting for manufacturer coupons. We evaluated the management of the accounting of, and the management controls within, the DeCA manufacturer coupon program. We reviewed the administration of the DeCA coupon processing contract and tested the reliability of the Automated Coupon System (ACS) that DeCA used to manage its coupon program. We reviewed accounting for coupon handling fees from October 1991 through May 1994. We also tested related management controls at selected commissary stores.

**Grocery Industry Procedures and Controls.** We interviewed representatives from two major grocery retailers and two coupon clearinghouses to identify manufacturer coupon processing procedures and controls in the grocery industry. We compared DeCA procedures and controls with the procedures and controls used in the grocery industry.

**Manufacturer Coupon Processing Contract.** We reviewed DeCA management of the manufacturer coupon processing contract, valued at \$1.6 million, by examining contract file documentation from October 1, 1991, through April 6, 1994, and by interviewing DeCA officials. We ascertained whether DeCA adequately administered the manufacturer coupon processing contract.

**Automated Coupon System Reliability.** We tested the accuracy of the ACS, including general ledger balances as of June 29, 1994. We reviewed the DeCA accounting procedures for manufacturer coupon shipments and unpaid manufacturer coupon invoices.

**Manufacturer Coupon Shipments.** We contacted 299 of 354 commissary stores to confirm whether 2,194 missing transmittal numbers were supported by the DeCA Form 70-3, "Commissary/Contractor Transmittal," or a transmittal form that the DeCA Interim Business System generated. We selected the 299 commissary stores because they had missing manufacturer coupon transmittal numbers in the ACS from October 1991 through February 1994.

**Unpaid Manufacturer Coupon Invoices.** We judgmentally selected 195 manufacturers with unpaid manufacturer coupon invoices according to the ACS, as of February 28, 1994. The 195 manufacturers represented approximately 93 percent of the total \$16.9 million of unpaid manufacturer coupon invoices. We requested that the manufacturers confirm the amounts due to DeCA.

**Coupon Handling Fees.** We reviewed the accounting for \$66.9 million in coupon handling fees collected from October 1991 through May 1994. We calculated the coupon handling fees that should have been collected, based on

## Introduction

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the number of manufacturer coupons processed. Additionally, we determined the actual amount of coupon handling fees collected and transferred to the Commissary Operations Fund.

**Store Level Review.** During August 1994, we evaluated the internal control procedures used for manufacturer coupon management at 19 commissary stores. The 19 commissary stores were judgmentally selected based on cumulative manufacturer coupon redemptions from October 1991 through February 1994. The annual manufacturer coupon sales for the 19 stores was about \$26.7 million.

**Limitations to Audit Scope.** DeCA performance reports that were used to calculate manufacturer coupon losses for FY 1994 were not available. We could not calculate the coupon handling fee amount that should have been transferred to the Commissary Operations Fund.

**Use of Computer-Processed Data and Statistical Sampling Procedures.** The data in the ACS were unreliable. We evaluated transmittal numbers, manufacturer coupon invoices, and the unofficial general ledger, which were included in the ACS. The effect of using unreliable data to manage the DeCA manufacturer coupon program is discussed in Finding A. We did not base our audit results on unreliable data. Additionally, we did not use statistical sampling procedures for this audit.

**Audit Standards and Time Period.** We performed this economy and efficiency audit from March through September 1994 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls as we considered necessary. The organizations visited during the audit are shown in Appendix D.

## Management Controls

**Management Controls Assessed.** We evaluated the management controls applicable to compliance with laws, regulations, and procedures for controlling manufacturer coupon assets; and the implementation of the DeCA management control program. Specifically, we reviewed DeCA contracting and accounting procedures, security, and shipment controls for manufacturer coupons.

**Management Control Weaknesses.** The audit identified material management control weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. Management controls were not effective to account for manufacturer coupon shipments or to identify paid and unpaid manufacturer coupon invoices. In accordance with the DoD Internal Management Control Program, DeCA identified coupon policies and procedures as a material management control weakness in its FY 1993 Annual Statement of Assurance. In the FY 1994 Annual Statement of Assurance, DeCA stated that a corrective action plan had been developed to correct the management control

problems. Recommendations in this report, if implemented, will assist in correcting the material management control weaknesses identified. The potential benefits of the recommendations related to management controls are approximately \$2.5 million. See Appendix C for a summary of the potential benefits resulting from the audit. A copy of the final report will be provided to the senior officials responsible for management controls in the Office of the Secretary of Defense and DeCA.

## Prior Audits and Other Reviews

Inspector General, DoD, Report No. 94-157, "Defense Commissary Agency Financial Management Improvement Program," June 30, 1994, stated that DeCA had made significant progress in six Financial Management Improvement Program functional areas, but that some progress was still required for the manufacturer coupon program. The ACS did not have adequate management controls and did not contain accurate data useful for managing the manufacturer coupon program. The report did not make any recommendations because of a planned follow-on audit. The Director, DeCA, agreed with the audit results.

## Other Matters of Interest

The DeCA Inspector General issued a memorandum to DeCA regional directors on July 14, 1994, providing manufacturer coupon management guidance for the commissary stores. The memorandum described problems identified by the Inspectors General of DoD and DeCA concerning store level manufacturer coupon management; and it emphasized that manufacturer coupons are another form of currency. It stated that the manufacturer coupon management section of the DeCA Inspector General assessment checklist (a self-assessment procedure used by commissary store officers) would be changed from critical to mandatory, effective October 1, 1994.

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## **Part II - Findings and Recommendations**

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## **Finding A. Manufacturer Coupon Program**

The Defense Commissary Agency did not effectively and efficiently manage its manufacturer coupon program. The condition occurred because the Defense Commissary Agency did not implement grocery industry procedures and controls. As a result, the Defense Commissary Agency:

- o could not account for about \$15.2 million in manufacturer coupon shipments from the commissary stores to the coupon clearinghouse, from October 1991 through February 1994;

- o did not know the amount of paid or unpaid manufacturer coupon invoices;

- o incorrectly transferred \$65 million in paid coupons and related coupon handling fees to the Air Force from October 1991 through July 1993; and

- o will spend approximately \$2.5 million more than needed over the next 6 years to operate the manufacturer coupon program.

## **Background**

The acceptance, processing, and accounting for manufacturer coupons involves multiple activities. The following paragraphs identify the procedures used within DeCA and affected organizations and the grocery industry to process manufacturer coupons.

**Commissary Store Procedures.** Commissary stores accept manufacturer coupons from patrons and periodically ship them to a coupon clearinghouse. Commissary stores assign sequential transmittal numbers to DeCA Form 70-3 or to a DeCA Interim Business System form that is prepared for each manufacturer coupon shipment. Commissary stores enter manufacturer coupon sales data into the DeCA Interim Business System and electronically transmit the data to the Standard Finance System (STANFINS), the official DeCA accounting system, through the Automated System for Army Commissaries. See Appendix A for a flowchart of the DeCA manufacturer coupon program.

**Defense Finance and Accounting Service.** The Defense Finance and Accounting Service (DFAS) - Columbus Center maintains STANFINS and separate suspense account records for manufacturer coupon payments deposited to a government account at a commercial bank. DFAS transfers funds from the suspense account to the Commissary Resale Stock Fund and the Commissary Operations Fund based on DeCA Headquarters, Coupon Redemption Branch (CRB), notification.

## Finding A. Manufacturer Coupon Program

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**Coupon Redemption Branch.** The CRB manages the DeCA manufacturer coupon program, including the ACS. The ACS is a stand-alone information system used to account for and control manufacturer coupons. It does not exchange data with STANFINS. The CRB receives transmittal forms from the commissary stores, and its employees manually enter transmittal form data and general ledger information into the ACS. The CRB receives manufacturer payment data from the coupon clearinghouse and notifies DFAS of the amounts that should be transferred from the suspense account to STANFINS (Commissary Resale Stock Fund and Commissary Operations Fund). The CRB also coordinates coupon processing contract actions with the DeCA contracting officer.

**Coupon Clearinghouse - DeCA Procedures.** DeCA contracts with a coupon clearinghouse to process manufacturer coupons collected at commissary stores for payment by manufacturers. The contract value, approximately \$1.6 million annually, is based on the number of manufacturer coupons processed. The coupon clearinghouse separates the coupons by manufacturer, invoices the manufacturers, and electronically transmits payment data to the ACS. DeCA provides the coupon clearinghouse with the software necessary to record and electronically transmit the data to the ACS.

**Grocery Industry Procedures for Manufacturer Coupon Shipments.** Commercial grocery stores accept manufacturer coupons and send them once a week to central locations for shipment to a coupon clearinghouse. Generally, one employee at each central location spends less than 1 business day each week preparing manufacturer coupons for shipment to the coupon clearinghouse. See Appendix B for a flowchart of the grocery industry manufacturer coupon program.

**Coupon Clearinghouse - Grocery Industry Procedures.** The coupon clearinghouse pays and arranges for the shipment of manufacturer coupons from the central locations to the coupon clearinghouse. The coupon clearinghouse separates the coupons by manufacturer, invoices manufacturers for payment, and provides management reports to the central locations. The grocery industry uses two payment systems, the single-pay system and the multipay system. In the single-pay system, each manufacturer pays the coupon clearinghouse, and the coupon clearinghouse regularly sends one check to the grocery retailer. The coupon clearinghouse performs a majority of the accounting and collection functions. In the multipay system, each manufacturer makes payment directly to the grocery retailer. The grocery retailer must have an aggressive collection department that maintains an accurate record of paid and unpaid manufacturer coupon invoices. If the grocery retailer does not receive a payment, the retailer deducts the amount of the unpaid manufacturer coupon invoices from the invoices that the manufacturer sends to the grocery retailer for goods received. The grocery retailers we visited used a single-pay system.

## **Finding A. Manufacturer Coupon Program**

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### **Effectiveness and Efficiency of the DeCA Manufacturer Coupon Program**

DeCA was not effectively and efficiently managing the manufacturer coupon program, because it did not implement grocery industry procedures and controls. Specifically, DeCA included functions and staffing in the manufacturer coupon program that were unnecessary, such as:

- o transmittal numbers to track coupon shipments,
- o the ACS,
- o complex accounting transactions, and
- o more staff than the grocery industry would use to operate the manufacturer coupon program.

**Use of Transmittal Numbers.** The DeCA use of transmittal numbers to track coupon shipments was unnecessary and ineffective. DeCA lost control of coupon shipments and could not account for 1,851 coupon shipments, totaling \$15.2 million, from October 1991 through February 1994. The grocery industry controlled coupon shipments by using regularly scheduled weekly shipments.

**Periodic Shipments Using Transmittal Numbers.** DeCA commissary stores periodically shipped coupons to the coupon clearinghouse using sequential transmittal numbers as a control procedure. DeCA required the coupon clearinghouse to track the coupon shipments through the use of sequential transmittal numbers, because commissary stores shipped boxes of coupons directly to the coupon clearinghouse sometimes daily, sometimes bimonthly, which made coupon shipments more difficult to control. Also, the commissary stores did not use a standard method of shipment. For example, some commissary stores used registered mail, while others used regular uninsured mail. As a result, the coupon clearinghouse had difficulty tracking coupon shipments, because commissary stores numbered the transmittal forms inaccurately or shipped coupons without a transmittal form, and the coupon clearinghouse did not have authority to contact the commissary stores to resolve the errors. In 1 instance, 180 boxes of unprocessed coupon shipments up to 7 months old, valued at about \$1.5 million, were at the coupon processing facility. We informed DeCA of the unprocessed shipments and DeCA sent a team to review the unprocessed boxes. The team determined that a majority of the shipments had transmittal number problems and corrected the problems, which made the boxes ready to be processed for payment.

**DeCA Control of Coupon Shipments.** DeCA could not account for 1,851 coupon shipments, totaling \$15.2 million. Because the transmittal numbers were sequential, a coupon shipment should exist for each transmittal number from 001 to the last number used for each store. Of about 72,000 transmittal numbers that should have been included in the ACS, 6,632 were not accounted for in the ACS from October 1991 through February

## Finding A. Manufacturer Coupon Program

1994. We contacted personnel at 299 commissary stores to determine whether a coupon shipment existed for 2,194 of the 6,632 missing transmittal numbers. Responses from commissary store personnel are summarized in Table 1. We were unable to contact 55 additional commissary stores to determine the status for 4,438 transmittal numbers. In some cases, the numbers represented commissary stores that had closed. In other cases, the numbers represented commissary stores located on Air Force bases for which the transmittal numbers were entered in the ACS under a number different from that assigned by the commissary store and could not be identified by the specific commissary store.

Table 1. Support of Unaccounted for Transmittal Numbers		
<u>Explanation</u>	<u>Unaccounted for Transmittal Numbers</u>	<u>Dollar Value (millions)</u>
Transmittal number/shipment supported	1,307	\$ 7.0
Coupon shipment not supported	544	8.2
Transmittal number not used	280	0
Commissary store did not respond	<u>63</u>	<u>0</u>
<b>Total</b>	<b>2,194</b>	<b>\$15.2</b>

The table shows that 1,307 transmittal numbers were not accounted for in the ACS, but commissary store documentation indicates shipment to the clearinghouse. For 544 transmittal numbers, coupons may have been shipped, but supporting documentation was not retained at the commissary store. The specific transmittal numbers were not used for 280 missing transmittal numbers, and for 63 numbers the responsible commissary store did not respond to our request for information. The responses show that 1,851 (1,307 plus 544) transmittal numbers, representing coupon shipments of approximately \$15.2 million, were probably shipped and not received by the coupon clearinghouse. The coupon processing contractor was responsible for filing insurance claims for missing manufacturer coupon shipments. However, DeCA could not provide the adequate proof of shipment necessary to file insurance claims.

**Regularly Scheduled Coupon Shipments.** The grocery industry shipped coupons the same day each week from the grocery stores to a central location without transmittal numbers. The use of regularly scheduled coupon shipments to central locations made it easier to detect missing shipments, because if the central location did not receive the coupons by the scheduled date, the central location could immediately contact the grocery store and determine the problem. This process eliminated the need for grocery retailers to use transmittal numbers.

**Automated Coupon System.** The ACS was inaccurate, unreliable, and not needed to manage the DeCA manufacturer coupon program. DeCA did not know how many manufacturer coupon invoices were paid or unpaid. Grocery industry practices did not require separate computer systems.

## Finding A. Manufacturer Coupon Program

**DeCA Stand-Alone Computer System.** The ACS was designed as a stand-alone computer system to account for and control manufacturer coupons. The ACS included an unofficial general ledger accounting system that was inaccurate; and it did not provide useful management information, because controls and procedures did not ensure accurate input of coupon processing and accounting data. DeCA management agreed that balances on the ACS general ledger were inaccurate and unreliable. Further, accounting data in the ACS duplicated information available from STANFINS and the coupon clearinghouse. DeCA could have used the STANFINS official general ledger to obtain accurate balances, such as coupon sales data, and could have contractually required the coupon clearinghouse to provide management reports containing information such as the number of coupon invoices that the manufacturers had not paid. Also, the ACS did not contain any data that could be used to track fund transfers. As a result, DeCA inappropriately transferred \$65 million in manufacturer coupons and coupon handling fees into an Air Force appropriation.

**DeCA Records of Paid and Unpaid Manufacturer Invoices.** DeCA did not know how many manufacturer coupon invoices were paid or unpaid. The coupon clearinghouse contractor was required to use the ACS to send a second invoice to manufacturers for overdue unpaid invoices. The ACS produced a report of paid and unpaid coupon invoices, but the report was inaccurate and did not provide sufficient information by manufacturer. That situation made it impossible for the contractor to send second invoices.

**Confirmation of Unpaid Manufacturer Invoices.** Using the ACS, we developed a \$16.9 million data base of unpaid manufacturer coupon invoices as of February 28, 1994. To verify the unpaid balances, we sent confirmation letters to 195 manufacturers for 19,171 unpaid manufacturer coupon invoices, totaling about \$15.7 million (93 percent of \$16.9 million). We received responses from 81 manufacturers for about \$6.2 million in manufacturer coupon invoices. Table 2 summarizes the manufacturers' responses.

**Table 2. Manufacturer Records of Unpaid Coupon Invoices**

<u>Manufacturers'</u> <u>Responses</u>	<u>Number of Invoices</u>	<u>Dollar Value</u> <u>(millions)</u>
Invoice was paid	422	\$1.3
Invoice was not paid	1,894	2.6
No record of invoice	4,049	2.2
Invoice was canceled	<u>155</u>	<u>0.1</u>
<b>Total</b>	<b>6,520</b>	<b>\$6.2</b>

## Finding A. Manufacturer Coupon Program

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Table 2 shows that the ACS data were inaccurate, because the ACS indicated that \$6.2 million of invoices was unpaid while manufacturers' responses showed that only \$2.6 million of invoices was unpaid.

**Fund Transfers to the Air Force.** DeCA inappropriately directed DFAS to transfer \$65 million in manufacturer coupons and coupon handling fees into an Air Force appropriation instead of the Commissary Resale Stock Fund and the Commissary Operations Fund. From October 1, 1991, through March 31, 1992, commissary stores located on Air Force bases accepted \$59.4 million in manufacturer coupons and sent manufacturer coupons to the Air Force coupon clearinghouse, rather than the DeCA coupon processing contractor. From October 1991 through July 1993, the Air Force coupon clearinghouse sent payment checks, totaling \$59.4 million in manufacturer coupons and \$5.6 million in coupon handling fees, to DeCA. DeCA recorded the payments in the ACS and deposited both amounts in the DFAS suspense account. The ACS did not track fund transfers. DeCA incorrectly directed DFAS to transfer the deposited funds to an Air Force appropriation instead of the Commissary Resale Stock Fund and the Commissary Operations Fund. As a result, \$65 million in funds was not available to purchase resale merchandise inventory or pay operating expenses.

**Grocery Industry Procedures.** Grocery retailers did not maintain a separate computer system to account for and monitor coupons. The grocery retailers accounted for coupons with their official general ledger accounting system and monitored coupons by using management reports that coupon clearinghouses provided. Coupon clearinghouses provided the two grocery retailers we visited with records of unpaid manufacturer coupon invoices and grocery store performance data. Coupon clearinghouse officials stated that they could routinely provide that data to DeCA.

**Complex Accounting Transactions.** STANFINS accounting transactions for commissary store accounts receivable were unnecessarily complex. The accounting transactions required extensive manual effort and did not contribute to the management of the manufacturer coupon program. The grocery industry did not establish an accounts receivable for each grocery store.

**Commissary Store Accounts Receivable.** An accounts receivable for each commissary store was established for the Commissary Resale Stock Fund in STANFINS for the amount of each commissary store's reported daily coupon sales. The accounts receivable was not based on amounts invoiced to manufacturers. Monthly, the DFAS - Columbus Center sent a STANFINS generated Standard Form 1080, "Voucher for Transfers Between Appropriations and/or Funds," for each commissary store to the CRB. The Standard Form 1080 provided a monthly total of each store's reported daily coupon sales. The CRB periodically prepared a letter instructing DFAS to transfer funds deposited in the DFAS suspense account to the Commissary Resale Stock Fund, for the total value of Standard Forms 1080 received. The transfer reduced the commissary store STANFINS accounts receivable balance. The CRB instructed DFAS to close out the oldest commissary store accounts receivable first. Personnel at the DFAS - Columbus Center reviewed the letters and manually input the transfer in STANFINS. Because of a lack of comparability between

## **Finding A. Manufacturer Coupon Program**

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data in the ACS and STANFINS, no attempt was made to reconcile manufacturer coupon payments to individual commissary store's accounts receivable recorded in STANFINS. That inaction limited the usefulness of the Standard Form 1080 process, because actual payments were not compared to actual coupon sales at the commissary stores. The complex process of preparing Standard Forms 1080 and transferring funds was manually labor intensive and did not provide results that contributed to the management of the manufacturer coupon program.

**Grocery Industry Accounts Receivable.** The grocery industry established an overall accounts receivable based on total coupon sales for the retail stores, and cleared the accounts receivable as payments were received from the coupon clearinghouse. Unlike DeCA, the grocery retailers did not record a receivable for each store and did not prepare documents similar to an Standard Form 1080 for each store. The process used by the grocery industry required limited accounting transactions and matched the clearinghouse payments with the accounts receivable. The grocery industry maintained control by comparing collections to the amount of the accounts receivable and by obtaining reports on the performance of selected stores from the coupon clearinghouse.

**Staffing Requirements.** DeCA employed staff to complete the unnecessary functions discussed above, because it did not implement effective grocery industry procedures. DeCA will spend approximately \$2.5 million for the CRB to perform the unnecessary functions over the next 6 years.

**DeCA Staffing.** DeCA employed 11 persons full-time and 8 part-time persons, at an annual cost of about \$415,000, to perform unnecessary control and accountability functions. Nine CRB staff and two Information Resource Management Directorate staff worked full-time on the manufacturer coupon program. Additionally, DeCA assigned manufacturer coupon program duties, on a part-time basis, to two employees in the Information Resource Management Directorate and to at least one person in each of the six regions in the continental United States. We did not include the regional personnel in our calculations of cost, because they would perform different functions under a grocery industry process, offsetting any cost reductions.

**Grocery Industry Staffing.** The grocery industry employed significantly fewer persons than DeCA to account for and control manufacturer coupons. The grocery industry implemented simple coupon monitoring procedures that did not require extensive staffing. For example, a grocery retailer, with more than 100 stores in a region, required 1 person less than 1 day a week to control and prepare manufacturer coupons for shipment.

**Costs of Manufacturer Coupon Program.** DeCA will spend approximately \$2.5 million (\$415,000 annually) more than needed to operate the manufacturer coupon program over the next 6 years. The annual personnel cost for the CRB was \$319,315; and for the Information Resource Management Directorate the cost was \$95,215. If DeCA adopted standard grocery industry procedures and controls, the CRB and software support for the ACS would not be needed. We did not include the cost of regional personnel in our

## **Finding A. Manufacturer Coupon Program**

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calculations, because DeCA would continue to have them perform other accounting and control functions at the region. Additionally, we did not include offsetting increased clearinghouse contract costs, because we were told that the current DeCA contracts with the coupon clearinghouse may cost more than commercial contracts. That situation occurred because the vendors were required to learn and use the DeCA ACS software, rather their own in-house systems.

### **Recommendations, Management Comments, and Audit Response**

**We recommend that the Director, Defense Commissary Agency:**

- 1. Implement established grocery industry procedures and controls for manufacturer coupon processing. Implementation of the procedures and controls should eliminate transmittal numbers, the Automated Coupon System, and the individual commissary store accounts receivable process.**

**Management Comments.** DeCA partially concurred and agreed to complete a study of industry processes by March 31, 1996. If industry practices can be adopted or adapted to meet its requirements, with adequate management controls, it will do so. DeCA stated that it appears from data in the report that DeCA has inadequate controls and accountability. However, management stated that the current system is cost-effective and will provide adequate management controls, once planned management actions are completed.

**Audit Response.** The DeCA agreement to conduct a study of industry practices is considered responsive. However, we do not agree that the current system is cost-effective, when compared to accepted industry practices, and we do not agree that it provides adequate controls. Although DeCA maintains that management controls were adequate, it concurred with our recommendations concerning \$15.2 million in unaccounted for coupon shipments and \$10.2 million in coupon handling fees. Those amounts indicate weak management controls over merchandise coupons. DeCA has maintained that corrective actions have been underway since 1993. Material management control weaknesses still exist indicating that the DeCA corrective actions to date were not fully effective. We request that the DeCA provide the results of the industry study when it is completed.

- 2. Determine the disposition of the \$15.2 million in unaccounted for manufacturer coupon shipments.**

**Management Comments.** DeCA concurred and agreed to research the disposition of unaccounted for coupon shipments by August 31, 1995, to determine whether coupon transmittal numbers questioned by the Inspector General were ever used and the shipments were actually processed and collections made. DeCA will reinforce the need to follow coupon procedures to the regions and store management and ask the DeCA Inspector General

## **Finding A. Manufacturer Coupon Program**

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to consider coupons an inspection item during store visits. For the long-term solution, DeCA will negotiate an enforceable contract between DeCA and its coupon processing vendor.

### **3. Determine the amount of paid and unpaid manufacturer coupon invoices and collect the unpaid invoices.**

**Management Comments.** Management concurred and stated that as of March 31, 1995, the Outstanding Invoice File accurately reflected valid accounts receivables.

**Audit Response.** DeCA did not describe what action was taken to make the Outstanding Invoice File accurate. We request additional comments describing the action taken by management to verify the validity of invoices and correct the file.

### **4. Collect the \$65 million in manufacturer coupons and coupon handling fees for the Air Force. Reimburse the Commissary Resale Stock Fund \$59.4 million for the face value of the manufacturer coupons, and the Commissary Operations Fund the remaining \$5.6 million for the coupon handling fees.**

**Management Comments.** DeCA nonconcurred and stated that there is no Commissary stock fund and that no reimbursement is due DeCA for the \$59.4 million face value of merchandise coupons or \$5.6 million in coupon handling fees. Management stated that all DoD stock funds were consolidated into the Defense Business Operations Fund (DBOF) on October 1, 1991. Any residual cash in the DeCA stock funds at October 1, 1991, and any collections for the face value of merchandise coupons remaining in the Air force Stock Fund, were consolidated into the DBOF and would not be due DeCA. Similarly, the \$5.6 million of merchandise coupon handling fees would have been consolidated into the DBOF along with the face value of merchandise coupons.

**Audit Response.** We accept the DeCA comments. The consolidation into DBOF changed the need for the accounting changes.

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## **Finding B. Coupon Handling Fees**

The Defense Commissary Agency did not reimburse the Commissary Operations Fund for all manufacturer coupon handling fees that it collected. The reimbursements were not made because the Defense Commissary Agency did not fully comply with public law and an internal directive, which require the use of and monthly transfer of all coupon handling fees collected to pay for operating costs. As a result, the Commissary Operations Fund was not reimbursed a total of \$16.7 million for coupon handling fees collected from October 1991 through May 1994, and the Commissary Surcharge Collections Fund balance was overstated by at least \$6.5 million.

### **Background**

**Purpose of Coupon Handling Fees.** Manufacturers pay DeCA an \$.08 handling fee for each manufacturer coupon that the manufacturer accepts for payment. The coupon handling fee reimburses DeCA for the operating cost of collecting and handling the manufacturer coupons. DeCA is required by public law to transfer the coupon handling fees to the Commissary Operations Fund to cover its operating costs. Approximately 841 million manufacturer coupons have been processed since the establishment of DeCA in October 1991, and approximately \$66.9 million in coupon handling fees has been collected.

**Public Law.** United States Code, title 10, section 2484, "Commissary Stores: Expenses," (10 U.S.C. 2484) states that appropriated funds may not be used to pay costs incurred, except to the extent that they are reimbursed, in connection with collecting the face value of manufacturer coupons. Thus, collected coupon handling fees are to be transferred to the Commissary Operations Fund, an appropriated fund.

**DeCA Directive.** Chapter 21-6, "Transfer of Handling Fees," of DeCA Directive 70-16, "Financial Management for Service Centers," August 31, 1994, requires the CRB to determine and transfer, monthly, the amount of coupon handling fees available to transfer to the Commissary Operations Fund. The directive also requires that the CRB calculate the amount available for transfer by deducting manufacturer coupon losses from the coupon handling fees received from manufacturers. Manufacturer coupon losses occur when commissary stores accept manufacturer coupons that manufacturers do not pay, and when coupon amounts that commissary stores report differ from actual coupon clearinghouse counts. Before August 1994, DeCA followed the practices subsequently incorporated in DeCA 70-16.

The Office of the Deputy General Counsel, Inspector General, DoD, reviewed 10 U.S.C. 2484 and determined that handling fees should not be used to cover coupon losses within DeCA. The text of 10 U.S.C. 2484 clearly states that coupon handling fees should not be used to cover losses; instead, coupon losses incurred by the Commissary Resale Stock Fund should be recovered from the

## Finding B. Coupon Handling Fees

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Surcharge Collections Fund. One of the purposes of the Commissary Surcharge Collections Fund is to pay certain commissary store operating costs.

### Handling Fee Transfers to Commissary Operations Fund

DeCA did not reimburse the Commissary Operations Fund all manufacturer coupon handling fees that it collected from October 1991 through May 1994. The Commissary Operations Fund did not receive \$16.7 million in collected handling fees, as summarized in Table 3.

Table 3. Coupon Handling Fees Not Transferred to the Commissary Operations Fund	
<u>Explanation</u>	<u>Dollar Value (millions)</u>
Handling fees used to cover coupon losses	\$ 6.5
Handling fees not transferred monthly	<u>10.2</u>
<b>Total</b>	<b>\$16.7</b>

**Compliance with Public Law.** DeCA inappropriately deducted \$6.5 million of coupon losses from the amount of coupon handling fees available for transfer to the Commissary Operations Fund, because DeCA did not fully comply with 10 U.S.C. 2484. Section 2484, as interpreted by the Office of the Deputy General Counsel (Inspector General), requires DeCA to transfer to the Commissary Operations Fund all coupon handling fees collected. The CRB incorrectly deducted coupon losses from the amount of coupon handling fees collected before informing DFAS of the amount of the coupon handling fees that were available for transfer to the Commissary Operations Fund.

**Coupon Loss Deductions.** In FYs 1992 and 1993, DeCA inappropriately deducted \$6.5 million of coupon losses in its calculation of the coupon handling fees available for transfer to the Commissary Operations Fund. We could not ascertain whether DeCA deducted coupon losses from coupon handling fees in calculating the amount to be transferred in FY 1994, because as of February 3, 1995, DeCA had not calculated coupon losses using the methodology it previously had used, and required by DeCA Directive 70-16. The \$6.5 million of coupon losses in FYs 1992 and 1993 incurred by the Commissary Resale Stock Fund should have been reimbursed by the Commissary Surcharge Collections Fund.

**Compliance with DeCA Directive 70-16.** Coupon handling fees, totaling \$10.2 million, were not transferred to the Commissary Operations Fund, because the CRB did not transfer available coupon handling fees monthly, as required by DeCA Directive 70-16. DeCA collected approximately

\$66.9 million in coupon handling fees from October 1991 to May 1994, and properly transferred about \$50.2 million to the Commissary Operations Fund through June 1994. Of the remaining \$16.7 million (\$66.9 million minus \$50.2 million), \$6.5 million was incorrectly deducted for coupon losses in FYs 1992 and 1993. The remaining \$10.2 million was not transferred to the Commissary Operations Fund. Based on available data, we could not ascertain how DeCA accounted for the \$10.2 million. Additionally, we could not ascertain why the CRB did not transfer the \$10.2 million, but we attributed it to a lack of visibility over transfers, because the CRB did not make monthly transfers of coupon handling fees as it was required to do.

## **Recommendations, Management Comments, and Audit Response**

We recommend that the Director, Defense Commissary Agency:

1. Revise Chapter 21-6, "Transfer of Handling Fees," of Defense Commissary Agency Directive 70-16, "Financial Management for Service Centers," August 31, 1994, to comply with United States Code, title 10, section 2484, "Commissary Stores: Expenses." Such revision should eliminate deductions for coupon losses when calculating the amount of coupon handling fees available for transfer to the Defense Commissary Operations Fund. Commissary Resale Stock Fund coupon losses should be reimbursed by the Surcharge Collections Fund.

**Management Comments.** DeCA nonconcurred and stated that Public Law 97-114, title VII, of the DoD Appropriations Act for FY 1982 supports its position that it is not appropriate for coupon losses to be reimbursed from the Commissary Surcharge Collections Fund. Additionally, DeCA stated that the DBOF is an appropriation, of which the commissaries are a business area, that is subject to the general provisions of Public Law 97-114. In the opinion of DeCA, Public Law 97-114 allows DeCA to use appropriated funds to pay for the face value of unreimbursed merchandise coupons.

**Audit Response.** The DeCA comments are not responsive. Public Law 97-114, used by DeCA to support its position, is not the appropriate public law. The provisions of 10 U.S.C. 2484 govern this issue, not Public Law 97-114. The Associate Deputy General Counsel (Inspector General) reviewed the DeCA response and reaffirmed that the audit recommendation is the correct interpretation of the applicable law. We request that DeCA provide additional comments supporting its position in its response to the final report.

2. Establish controls to ensure that each month the amount of coupon handling fees available for transfer are determined and transferred to the Commissary Operations Fund, as required by Chapter 21-6 of Defense Commissary Agency Directive 70-16.

## **Finding B. Coupon Handling Fees**

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**Management Comments.** DeCA concurred and stated that improved procedures were established on August 31, 1994. The procedures will ensure that funds are transferred as required.

**3. Transfer \$6.5 million in coupon handling fees from the Commissary Resale Stock Fund appropriation account to the Commissary Operations Fund appropriation, because the funds were inappropriately deducted. Transfer \$6.5 million from the Surcharge Collections Fund to the Commissary Resale Stock Fund for coupon losses. Also, determine the status of the \$10.2 million of unaccounted for coupon handling fees and transfer the funds from the Commissary Resale Stock Fund to the Commissary Operations Fund.**

**Management Comments.** DeCA partially concurred, but did not agree to transfer \$6.5 million from the Commissary Resale Stocks appropriation account to the Commissary Operations Fund account. DeCA stated that funds were appropriately used as described in their response to Recommendation B.1. above. DeCA agreed to verify the status of the \$10.2 million in handling fees identified as unaccounted for in the DeCA coupon information system.

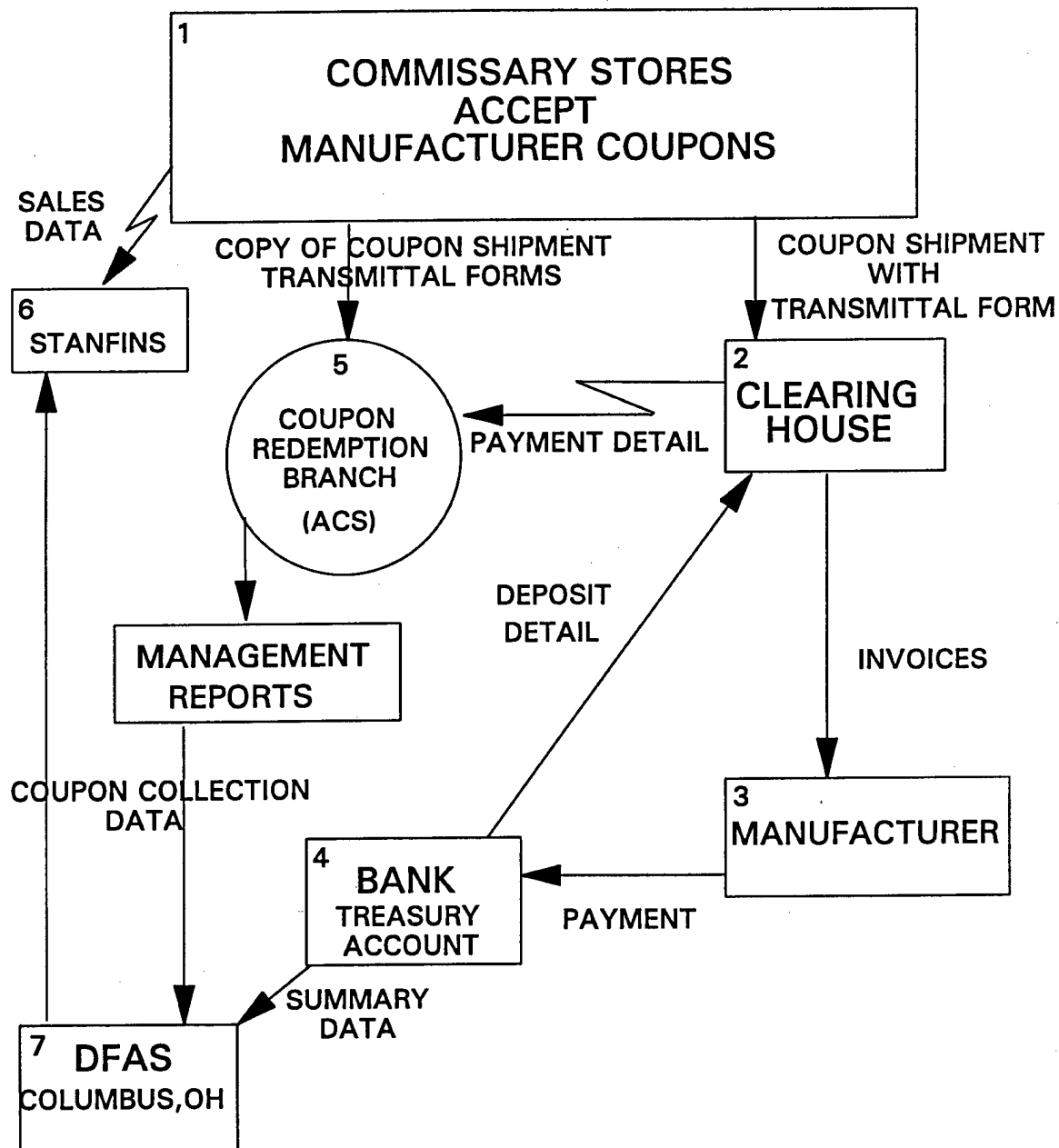
**Audit Response.** The DeCA comments are only partly responsive. We believe our audit recommendation continues to be appropriate. As stated in our response to the DeCA comments on Recommendation B.1., 10 U.S.C. 2484 requires the Commissary Surcharge Collections Fund to be used to pay for merchandise coupon losses. Although DeCA agreed to research \$10.2 million in unaccounted for funds, it did not provide a completion date for the action. We request that DeCA provide additional comments on the recommendation and the anticipated completion date for its research in its response to the final report.

**Management Comments on the Potential Monetary Benefits.** DeCA did not concur with the proposed potential monetary benefits for the reasons cited in the response to each recommendation.

**Audit Response.** We do not agree with the DeCA comments. The potential monetary benefit of \$2.5 million associated with Recommendation A.1. is an estimate. The actual benefit will be determined after DeCA completes its review of industry practices. The potential benefits of \$16.7 million associated with Recommendation B.3. are based on DeCA compliance with public law.

## **Part III - Additional Information**

## Appendix A. Defense Commissary Agency Manufacturer Coupon Program



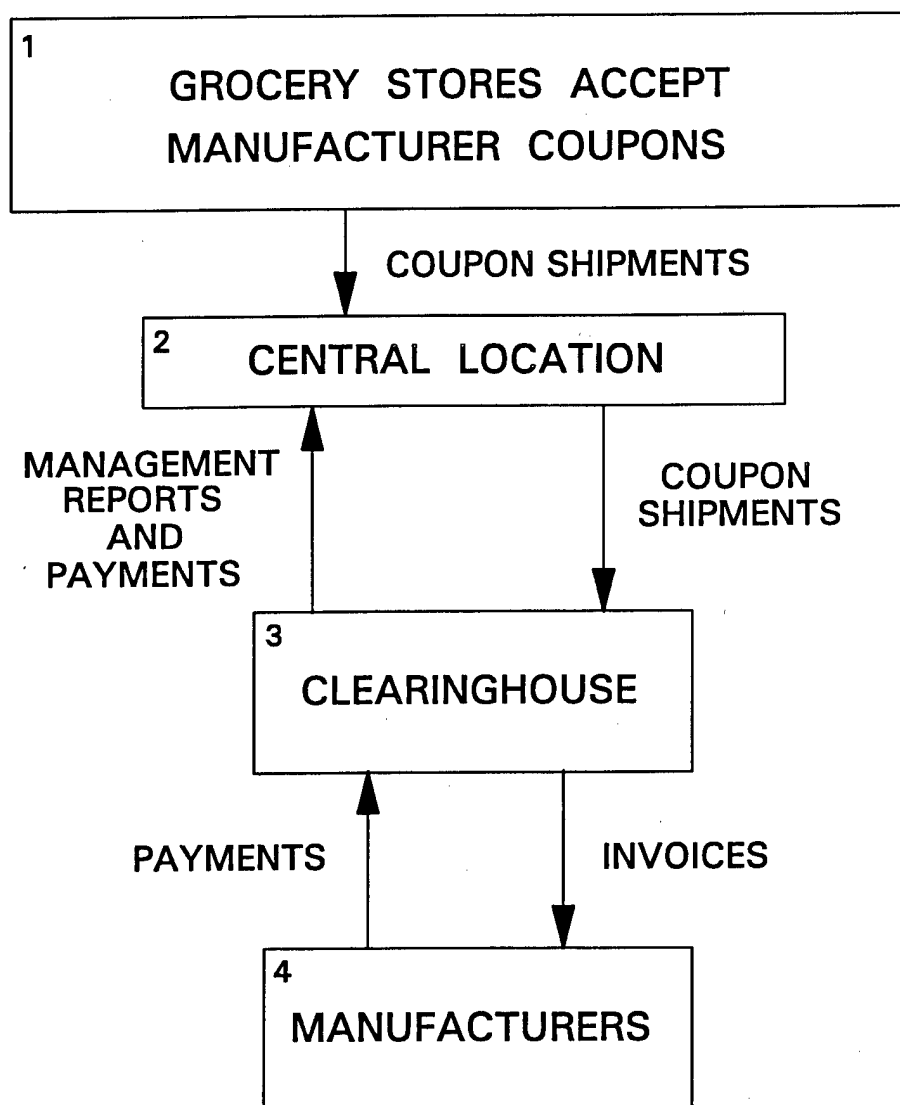
## **Appendix A. Defense Commissary Agency Manufacturer Coupon Program**

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1. Commissary stores accept manufacturer coupons from patrons; ship manufacturer coupons to a clearinghouse with an original transmittal form; send a copy of the transmittal form to the CRB; and electronically transmit coupon sales data to STANFINS.
2. The coupon clearinghouse sorts and counts the manufacturer coupons and transmits the results to the CRB; sends invoices to manufacturers; receives deposit detail from the bank; and transmits payment data directly to the ACS, which is maintained by the CRB.
3. Manufacturers process coupons and invoices and send payments to the bank, which are deposited to a Treasury account. DFAS - Columbus Center maintains summary account information for Treasury account deposits.
4. The bank sends detailed deposit information to the clearinghouse and summary deposit data to DFAS - Columbus Center.
5. The CRB maintains the ACS, which includes transmittal numbers and an unofficial general ledger. The CRB monitors manufacturer coupons using ACS generated management reports.
6. STANFINS electronically receives coupon sales data from the commissary stores. STANFINS is the computer system that contains the DeCA official general ledger; it does not interface with the ACS.
7. DFAS maintains STANFINS and records of deposits to a commercial bank for coupon payments by manufacturers. Monthly, DFAS also prepares Standard Forms (SF) 1080 for commissary stores and sends them to the CRB.

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## Appendix B. Grocery Industry Manufacturer Coupon Program



## **Appendix B. Grocery Industry Manufacturer Coupon Program**

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1. Grocery stores accept manufacturer coupons from customers and ship manufacturer coupons to a central location on a regular basis.
2. The central location ensures that coupons are received from all grocery stores and prepares and ships coupons to the clearinghouse.
3. The clearinghouse pays for and arranges shipment of coupons from the central location to the clearinghouse; sorts and counts coupons; sends invoices to manufacturers; sends payments to the central location; and provides management reports to the central location.
4. Manufacturers process coupons and invoices and send payments to the clearinghouse.

## Appendix C. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A.1.	Economy and Efficiency and Management Controls. Improve control of manufacturer coupon processing and reduce staffing.	Funds put to better use. DeCA can decrease its personnel costs for the Commissary Operations Fund (97X4930.5J00) by an estimated \$2.5 million over the 6-year Future Years Defense Program.
A.2. and A.3.	Management Controls. Improve the management of manufacturer coupons.	Undeterminable.
A.4.	Economy and Efficiency. Corrects the DeCA financial records.	Nonmonetary. Corrects the DeCA accounting records.
B.1. and B.2.	Compliance and Management Controls. Identify and transfer all coupon handling fees collected to the Commissary Operations Fund.	Nonmonetary.
B.3.	Economy and Efficiency. Use the funds collected to pay operating costs.	Funds put to better use. Reimburse the Commissary Operations Fund (97X4930.5J00) \$10.2 million.

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## **Appendix D. Organizations Visited**

### **Defense Organizations**

Defense Commissary Agency, Fort Lee, Petersburg, VA  
Defense Finance and Accounting Service - Columbus Center, Columbus, OH

### **Commissary Stores**

Barksdale Air Force Base, Shreveport, LA  
Belle Fourche Air Force Station, Belle Fourche, SD  
Camp Pendleton, Oceanside, CA  
Ellsworth Air Force Base, Rapid City, SD  
Fort Carson, Colorado Springs, CO  
Fort Leavenworth, Leavenworth, KS  
Fort Polk, Leesville, LA  
Fort Riley, Manhattan, KS  
Fort Sill, Lawton, OK  
Grand Forks Air Force Base, Grand Forks, ND  
Great Lakes Naval Air Station, North Chicago, IL  
Little Rock Air Force Base, Little Rock, AR  
MacDill Air Force Base, Tampa, FL  
Minot Air Force Base, Minot, ND  
Miramar Naval Air Station, San Diego, CA  
New Orleans Naval Air Station, New Orleans, LA  
Patrick Air Force Base, Cocoa Beach, FL  
Peterson Air Force Base, Colorado Springs, CO  
Tinker Air Force Base, Oklahoma City, OK

### **Non-Government Organization**

Coupon Processing Associates, El Paso, TX

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## **Appendix E. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)  
Deputy Under Secretary of Defense (Comptroller/Management)  
Deputy Under Secretary of Defense (Comptroller/Program/Budget)  
Under Secretary of Defense for Personnel and Readiness  
Assistant to the Secretary of Defense (Public Affairs)  
Director, Defense Logistics Studies Information Exchange

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Assistant Secretary of the Navy (Financial Management and Comptroller)  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Defense Organizations**

Director, Defense Commissary Agency  
Director, Defense Contract Audit Agency  
Director, Defense Finance and Accounting Service  
Director, Defense Logistics Agency  
Director, National Security Agency  
Inspector General, National Security Agency  
Inspector General, Central Imagery Office

### **Non-Defense Federal Organizations**

Office of Management and Budget  
U.S. General Accounting Office  
National Security and International Affairs Division, Technical  
Information Center

## **Non-Defense Federal Organizations (cont'd)**

National Security and International Affairs Division, Defense and National  
Aeronautics and Space Administration Management Issues  
National Security and International Affairs Division, Military Operations and  
Capabilities Issues

Chairman and ranking minority member of each of the following congressional  
committees and subcommittees:

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on National Security, Committee on Appropriations  
House Committee on Government Reform and Oversight  
House Subcommittee on National Security, International Affairs, and Criminal  
Justice, Committee on Government Reform and Oversight  
House Committee on National Security  
House Panel on Morale, Welfare and Recreation, Committee on National Security

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## **Part IV - Management Comments**

# Defense Commissary Agency Comments



REPLY TO  
ATTENTION OF

IR

MAY 01 1995

MEMORANDUM FOR INSPECTOR GENERAL, LOGISTICS SUPPORT DIRECTORATE,  
400 ARMY NAVY DRIVE, ARLINGTON, VA 22202-2884

SUBJECT: Audit Report on Defense Commissary Agency Management of  
Manufacturer Coupons (Project No. 4LA-0038)

Reference: DoDIG Memorandum, February 17, 1995, SAB.

Per your request in referenced memorandum, attached are our  
comments to the recommendations, monetary benefits, and the  
internal control weaknesses addressed in Part I of subject report.

A handwritten signature in black ink, appearing to read "Ronald P. McCoy".

RONALD P. MCCOY  
Colonel, USAF  
Chief of Staff

Attachment:  
As Stated

DEFENSE COMMISSARY AGENCY REPLY

SUBJECT: Draft Audit Report on Defense Commissary Agency  
Management of Manufacturer Coupons (Project NO. 4LA-  
0038)

**Finding A. Manufacturer Coupon Program**

**Additional Facts:** The DeCA system and procedures were taken from the U.S. Army Troop Support Agency (TSA) who managed the Army commissaries. This system was developed in compliance with audit recommendations made by the U. S. Army Audit Agency (Report SW 87-13) to correct internal control weaknesses identified in the audit. The audit report determined that government funds were used inappropriately by the contractor, there were discrepancies in coupon counts, account receivables, and records contained erroneous information.

This audit report identifies some problems in the coupon redemption process that had already come to DeCA's attention before this audit and corrective actions are under way.

The agency has tightened its internal controls related to coupon processing and has revamped its Internal Control checklist relating to coupon processing. We believe that the system and procedures we have in place currently provide control and accountability for the coupon redemption process.

**Recommendation 1.** Implement established grocery industry procedures and controls for manufacturer coupon processing. Implementation of the procedures and controls should eliminate transmittal numbers, the Automated Coupon System, and the individual commissary store accounts receivable process.

**Action Taken.** Partially Concur. Before adopting this recommendation, a more in depth look at private industry practices is required. However, from the data in the report, it appears that DeCA would have inadequate internal controls and accountability. We believe the current coupon system is cost effective and provides adequate internal controls once we have completed all milestones in our Financial Management Improvement Plan.

We agree to examine industry processes that may save resources and/or put our resources to better use. DeCA will form a team to study the current coupon process and compare it with private industry. If private industry's process can be adopted or adapted to meet our requirements with adequate internal controls, we will do so.

## Defense Commissary Agency Comments

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A study will require approximately six months to complete but it is not possible to begin until DeCA's reorganization which is effective on October 1, 1995. Therefore, the study will be completed by March 31, 1996.

**Recommendation 2.** Determine the disposition of the \$15.2 million in unaccounted for manufacturer coupon shipments.

**Action Taken.** Concur. DeCA will research the individual coupon transmittal numbers that were questioned by the IG regarding the disposition of the \$15.2 million to determine if the transmittal numbers were ever used and if the shipments were actually processed and collections made but the transmittal numbers were not entered into the coupon system. Furthermore, we will reinforce the need to follow coupon procedures to region and store management and request that the DeCA IG consider this an inspection item during their commissary visits. Our research will be completed August 31, 1995.

DeCA's long term solution to this problem was to get an enforceable contract between DeCA and the coupon processing contractor (now in place) which included higher insurance limits. Additionally, the contractor is to notify the CRB should a box arrive at their location without a transmittal enclosed and/or if a box of coupons cannot be processed. CRB will then take the necessary steps to correct the problem.

**Recommendation 3.** Determine the amount of paid and unpaid manufacturer coupon invoices and collect the unpaid invoices.

Concur. As of March 31, 1995, the Outstanding Invoice File accurately reflects valid accounts receivables.

**Recommendation 4.** Collect the \$65 million in manufacturer coupons and coupon handling fees from the Air Force. Reimburse the Commissary Resale Stock Fund \$59.4 million for the face value of the manufacturer coupons, and the Commissary Operations Fund the remaining \$5.6 million for the coupon handling fees.

**Action Taken.** Non-Concur. There is no DeCA commissary stock fund and no reimbursement of \$59.4 million is due DeCA for the face value of merchandise coupons as indicated in the report. All of the Military Services and Defense Agency stock funds and industrial funds (i.e., including the Services' commissary stock funds) were consolidated into the Defense Business Operations Fund (DBOF) effective October 1, 1991. Residual cash in these funds was consolidated at the DBOF corporate level. If any collections for the face value of merchandise coupons remained in the Air Force stock fund, it was consolidated into the DBOF corporate cash and a

reimbursement is not due DeCA. The DBOF commissary resale stocks business area is not a commissary stock fund in the context discussed in the report.

Additionally, the \$5.6 million of merchandise coupon handling fees would have been consolidated into the DBOF along with the face value of merchandise coupons. Since DeCA operations are a DBOF business area (i.e., commissary operations business area) no reimbursement from DBOF corporate cash would be required.

**Finding B. Coupon Handling Fees**

**Recommendation 1.** Revise Chapter 21-6, "Transfer of Handling Fees," of Defense Commissary Directive 70-16, "Financial Management for Service Centers," August 31, 1994, to comply with United States Code, title 10, section 2484, "Commissary Stores: Expenses." Such revision should eliminate deductions for coupon losses when calculating the amount of coupon handling fees available for transfer to the Defense Commissary Operations Fund. Commissary Resale Stock Fund coupon losses should be reimbursed by the Surcharge collections Funds.

**Action Taken.** Non-concur. Public Law 97-114, Title VII of the DOD Appropriations act for FY 82, reads as follows: "...That no appropriation contained in this act shall be available to pay any costs incurred by any commissary store or other entity acting on behalf of any commissary store in connection with obtaining the face value amount of manufacturer or vendor cents-off coupons unless all fees or moneys received for handling or processing such coupons are reimbursed to the appropriation charged with the incurred costs..." Appropriation Acts passed since have contained similar language.

DeCA is a DBOF activity with a commissary resale stocks business area and a commissary operation business area. DBOF is an appropriation subject to the provisions under Public Law 97-114 discussed above. Therefore, the coupon handling fees are used in accordance with law to offset any and all costs to accept and process merchandise coupons. This includes the reimbursement to the DBOF commissary resale stocks business area for the face value of unreimbursed coupons and the reimbursement to the DBOF commissary operation business area for labor and ancillary costs of processing coupons.

The sources and uses of Surcharge dollars are specifically enumerated to Title 10 of the U.S. Code. The usages are controlled by sections 2685 and 2484. Section 2685 specifically enumerates uses of Surcharge funds. Section 2484 specifies operation expenses

## Defense Commissary Agency Comments

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which can not be used with appropriated funds. Neither section specifically authorizes the use of Surcharge funds to reimburse the Stock Fund for coupon losses. If such losses occur, it must, by law, be paid out of the manufacturer's processing fee (10 U. S. Code, Section 2484, para (a)(4)).

**Recommendation 2.** Establish controls to ensure that each month the amount of coupon handling fees available for transfer are determined and transferred to the Commissary Operations Fund, as required by Chapter 21-6 of Defense Commissary Agency Directive 70-16.

**Action Taken.** Concur. DeCA established improved procedures during the audit which were implemented August 31, 1994, that will determine the amount of funds available from coupon handling fees. The procedures will ensure that each month, available funds are transferred to the Commissary Operations Fund, as required by Chapter 21-6 of DeCA Directive 70-16.

**Recommendation 3.** Transfer \$6.5 million in coupon handling fees from the Commissary Resale Stock Fund appropriation account to the Commissary Operations Fund appropriation, because the funds were inappropriately deducted. Transfer \$6.5 million from the Surcharge Collections Fund to the Commissary Resale Stock Fund for coupon losses. Also, determine the status of the \$10.2 million of unaccounted for coupon handling fees and transfer the funds from the Commissary Resale Stock Fund to the Commissary Operations Fund.

**Action Taken.** Partially concur. As stated in our response to recommendation 1 above, the coupon handling fees of \$6.5 million were appropriately used in accordance with statute to reimburse the DBOF.

Actions will be taken to verify the status of the \$10.2 million in handling fees identified in the report to ensure they are processed to the DBOF Commissary Operations Business Area.

### **Monetary Benefits.**

Nonconcur with the reported savings for the reasons stated in our response to the recommendations.

### **Internal Control Weaknesses.**

Improvements to the Coupon redemption process were included in DeCA's Financial Management Improvement Plan in early 1993. A total of 77 milestones were developed. These milestones included

actions to correct software problems, strengthen internal controls and to augment existing procedures for processing coupons. In addition, coupon processing was reported in the FY 1993 Annual Statement of Assurance under the Financial Management Procedural Noncompliance and the Automated Data Processing (ADP) Application Testing Material weaknesses. DeCA will update the Financial Management Improvement Plan with milestones for corrective actions for the recommendations in the report that we concur with.

## **Audit Team Members**

This report was produced by the Logistic Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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